

PUBLIC DISCLOSURE

JANUARY 14, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

MBTA EMPLOYEES CREDIT UNION

147 WEST FOURTH STREET
SOUTH BOSTON, MA 02127

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

| | |
|--------------|--|
| NOTE: | This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution. |
|--------------|--|

GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **MBTA Employees Credit Union** (or the "Credit Union"), prepared by the Division, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire membership in a manner consistent with its resources and capabilities.

This examination was conducted utilizing three performance criteria for industrial credit unions: 1) Average Net Loan to Share ratio, 2) Lending to Members of Different Incomes and 3) Fair Lending.

The Credit Union's average net loan-to-share for the previous eight periods is 88.4 percent. Based on the high Loan to Share ratio trend and the Credit Union's strong position in comparison to other similar institutions, it is considered to exceed the standards for satisfactory performance.

An analysis of the Credit Union's real estate related and consumer lending activity by borrower income for 2001, 2002 and 2003 revealed that the Credit Union originated a good number of loans to low and moderate income members despite the high cost of real estate in the current market prices. A rating of meets satisfactory performance was granted for this criterion.

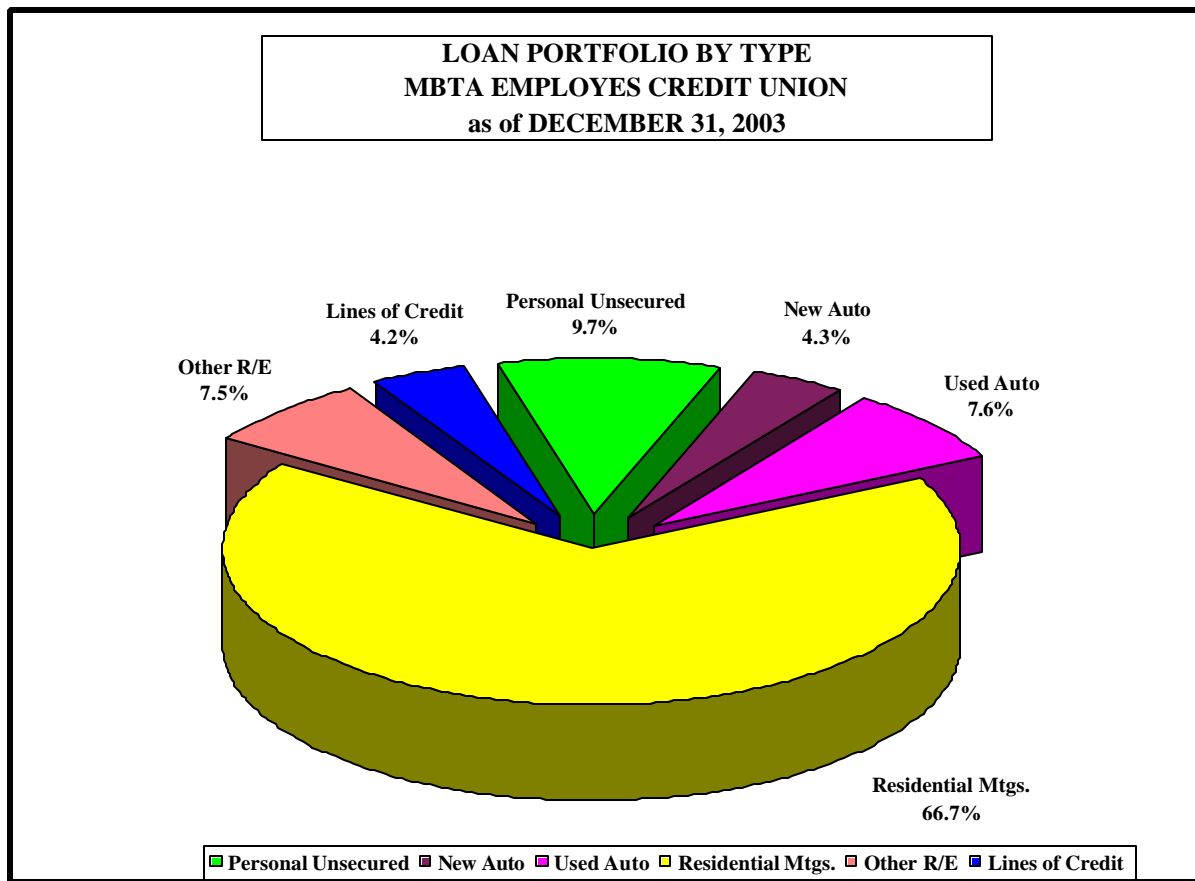
The Credit Union's fair lending performance is considered satisfactory.

PERFORMANCE CONTEXT

Description of Institution

MBTA Employees Credit Union is an industrial credit union, chartered by the Commonwealth of Massachusetts in 1936, for the purpose of promoting thrift among its members and the loaning of such savings to its members. As an industrial credit union, MBTA Employees Credit Union is member-oriented and is committed to ascertaining and meeting the credit needs of all its membership. As of December 31, 2003, the Credit Union had assets of \$176.9 million, while loans comprised approximately 74.5 percent of all assets, for a total of approximately \$131.8 million. The loan portfolio is composed of residential mortgages, personal, new auto, used auto and lines of credit. The majority of the Credit Union's loan portfolio (66.7 percent) consists of residential mortgages.

The following chart illustrates the composition of the loan portfolio.



Description of Institution (continued)

The Credit Union operates three full service offices. Its main office is located on 147 West Fourth Street, South Boston, Massachusetts 02127. The Credit Union's two branch offices are located at the Quincy Center MBTA Station, Quincy; and the Wellington MBTA Station, Medford. The Credit Union also operates nine automated teller machines (ATM) machines which are connected to the NYCE, Cirrus, Discover, American Express, Honor, Pulse/Visa and Master Charge and SUM networks. The ATM locations include: 147 West Fourth Street, South Boston; 500 Arborway, Jamaica Plain; 275 Dorchester Avenue, South Boston; 21 Arlington Avenue, Charlestown; 80 Broadway, Everett; 10 Park Plaza, 2nd Floor, Boston; 325 Grove Street, Newton; 1181 Hancock Street, Quincy; Wellington MBTA Station, Medford; and 240 South Hampton Street, South Boston. The Credit Union's office locations, ATM machines and banking hours are considered convenient and accessible to its members.

During the current examination period, the Credit Union applied for and was granted additional lending authority under the Parity Provisions of the Massachusetts General Laws.

The granted powers are described below:

- Personal loans up to \$15,000 and \$10,000 for homeowners and non-homeowners, respectively, for maximum term of 6 years pursuant to 209 CMR 50.06(3)(e);
- 100% loan-to-value automobile financing up to \$50,000 for maximum term of 6 years pursuant to 209 CMR 50.06(3)(f);
- Manufactured home loans and mobile home loans up to \$60,000 for a maximum term of 20 years, pursuant to 209 CMR 50.06(3)(i)2.;
- Boat, camper, or trailer loans up to \$75,000 for a maximum term of 20 years, pursuant to 209 CMR 50.06(3)(i)3;
- 40-year residential mortgage loans, pursuant to 209 CMR 50.06(3)(j);
- 95% loan-to-value on residential mortgage loans, pursuant to 209 CMR 50.06(3)(k); and
- Purchase and sale of loan and/or real estate portfolio, pursuant to 209 CMR 50.06(3)(l).

There appears to be no significant financial or legal impediments which would limit the Credit Union's ability to help meet the credit needs of its membership.

The Credit Union was last examined for compliance with CRA by the Division on June 23, 1999. That examination resulted in a satisfactory rating.

Description of Assessment Area (Membership)

MBTA Employees Credit Union defines its assessment area as its membership, in accordance with the Massachusetts CRA Regulation, 209 CMR 46.41(8), which states “[n]otwithstanding the requirements of this section, a credit union whose membership by-law provisions are not based on residence may delineate its membership as its assessment area.” MBTA Employees Credit Union has elected to identify its assessment area in this manner.

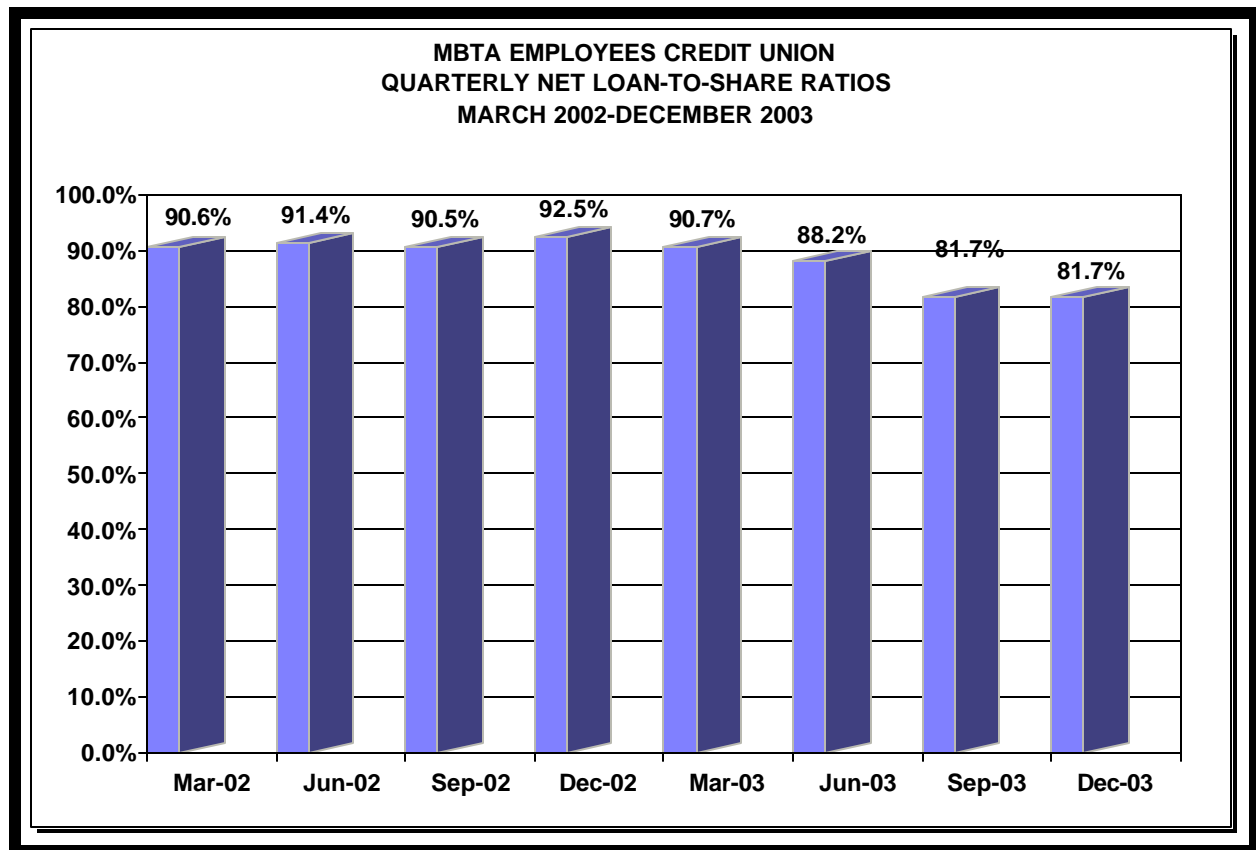
The Credit Union's by-laws state, in part, that “[m]embership in this corporation is limited to those who are employed by the MBTA, former employees of the MBTA who have accounts in good standing with the Credit Union at the time of their voluntary separation from the MBTA or whose application for continued membership in the Credit Union following termination of employment at the MBTA for any other reason has been approved by the Board of Directors and personnel employed by organizations operated wholly by and for such employees, including retired employees, widows and widowers and the immediate families of such members defined as spouse, parents, children and siblings by direct lineage. Persons not so eligible to membership may have joint accounts with members of the Credit Union for the purpose of deposits and withdrawals only when permitted by the Board of Directors.”

PERFORMANCE CRITERIA

1. LOAN TO SHARE ANALYSIS

An analysis of MBTA Employees Credit Union's net loan-to-share ratio was performed during the examination. The calculation incorporated eight, quarterly periods of the Credit Union's net loan to total share figures utilizing the National Credit Union Administration ("NCUA") 5300 call reports. This review included the quarters ending March 30, 2002, through December 31, 2003. The institution's average net loan-to-share ratio during this period was determined to be 88.4 percent, which is indicative of the Credit Union's commitment to lending to its membership.

The following graph illustrates the loan-to-share trends:

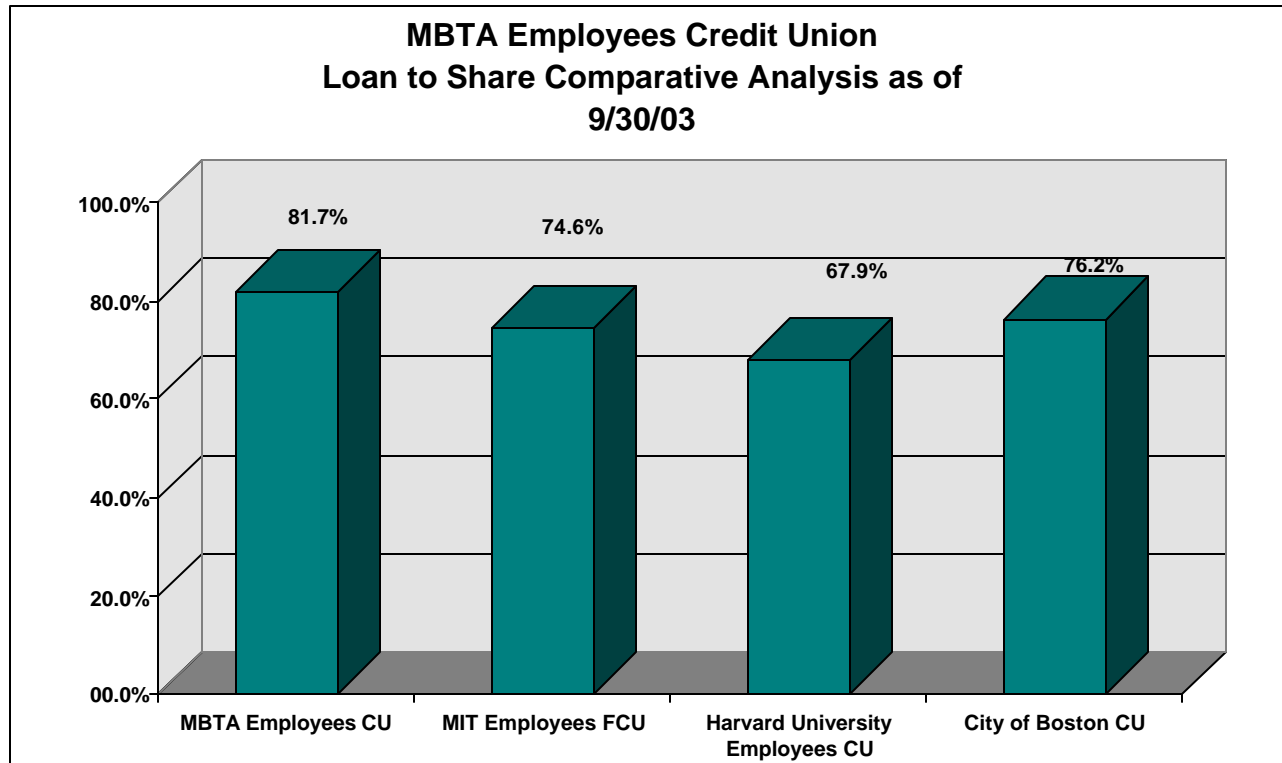


Source: NCUA Call Reports

In reference to the above graph, the Credit Union's ratios are excellent. In comparison to the average loan-to-share ratio of 78.9 percent for the prior examination period, the Credit Union's current ratio of 88.4 percent indicates a substantial increase in lending activity between examination periods. According to management, the current downward trend beginning in March 2003 was due to the sale of fixed rate mortgages to the servicing market. This sale represented 25 loans totaling \$5.0 million. Management also explained that the current mortgage market has tightened and the volume of originations has decreased. The Credit Union has also experienced a substantial influx of deposits, increasing by 13.5 percent, which outpaced lending activity in 2003.

1. LOAN TO SHARE ANALYSIS (continued)

The following graph illustrates the loan-to-share trends for comparable institutions:



Source: NCUA Call Reports

MBTA Employees Credit Union's loan-to-share ratio is in a relatively strong position when compared to three credit unions of similar asset size. In reference to the above graph, the MBTA Employees Credit Union's loan-to-share ratio is substantially higher than the three other institutions.

Therefore, based on the above information and MBTA Employees Credit Union's capacity to lend, the capacity of other similarly-situated institutions to lend to their members and the lending opportunities available within the organization, MBTA Employees Credit Union's loan-to-share ratio exceeds the standards for satisfactory performance.

2. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

An analysis of residential mortgage loans extended within the Credit Union's assessment area among various income levels was conducted. The majority of the MBTA employee base resides within the Boston Metropolitan Statistical Areas (MSA). However, the employee base also includes employees who are residents of other MSAs located within Massachusetts. Originations were categorized by the ratio of the applicant's reported incomes to the 2001, 2002 and 2003 estimated median family incomes of the MSAs mentioned above.

| MSA NAME | Median Family Household Incomes 2001 | Median Family Household Incomes 2002 | Median Family Household Incomes 2003 |
|---|---|---|---|
| | | | |
| Barnstable-Yarmouth/ 0740 | 51,700 | 56,500 | 58,700 |
| Boston MA-NH/ 1120 | 70,000 | 74,200 | 80,800 |
| Brockton/ 1200 | 61,300 | 63,500 | 70,300 |
| Lawrence MA-NH/ 4160 | 64,100 | 67,400 | 74,300 |
| Lowell MA-NH/ 4560 | 70,200 | 75,200 | 79,700 |
| New Bedford/ 5400 | 46,300 | 47,500 | 52,700 |
| Providence-Fall River-Warwick RI-MA/ 6480 | 52,800 | 54,100 | 58,400 |
| Worcester MA-CT/ 9240 | 57,000 | 58,400 | 68,000 |
| N/A (Non-MSAs) | 50,500 | 52,100 | 60,300 |

Source: Income figures were based on estimated 2001, 2002 and 2003 data from the Department of Housing and Urban Development (HUD).

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA; moderate income is defined as 50 to 79 percent of the median family income; middle income is defined as income between 80 and 119 percent of the median family income; and upper income is defined as income greater than 120 percent of the median family income.

2. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS (continued)

RESIDENTIAL LENDING

A review of residential mortgage loan originations revealed that 705 loans were originated during the current examination period. Further analysis revealed the Credit Union's lending activity by various income categories. The information included in the table below indicates that the highest number of originations, 40.7 percent, was granted to middle-income members. Also, of the total residential loans originated during the current examination period, 4.2 percent was granted to low-income members and 28.6 percent was granted to moderate-income members.

RESIDENTIAL MORTGAGE LOAN ORIGATION BY INCOME OF BORROWER BY NUMBER

| % OF MEDIAN MSA INCOME | 2001 | | 2002 | | 2003 | | TOTALS | |
|------------------------|------------|-------------|------------|-------------|------------|-------------|------------|-------------|
| | # | % | # | % | # | % | # | % |
| <50% | 5 | 3.1 | 6 | 2.8 | 18 | 5.5 | 29 | 4.2 |
| 50% - 79% | 33 | 20.5 | 64 | 29.3 | 105 | 32.2 | 202 | 28.6 |
| 80% - 119% | 64 | 39.8 | 87 | 39.9 | 136 | 41.7 | 287 | 40.7 |
| 120% > | 59 | 36.6 | 61 | 28.0 | 67 | 20.6 | 187 | 26.5 |
| TOTALS | 161 | 100% | 218 | 100% | 326 | 100% | 705 | 100% |

Source: HMDA/LAR Data for 2001, 2002 and 2003.

An analysis was also performed considering the dollar amount of originations by borrower income. The table below indicates that the highest number of originations, 41.5 percent, was granted to middle-income members. Also, of the total residential loans originated by dollar amount during the current examination period, 2.8 percent was granted to low-income members and 25.6 percent was granted to moderate-income members.

**RESIDENTIAL MORTGAGE LOAN ORIGATION BY INCOME OF BORROWER BY DOLLAR
AMOUNT**

| % OF MEDIAN MSA INCOME | 2001 | | 2002 | | 2003 | | TOTALS | |
|------------------------|---------------|-------------|---------------|-------------|---------------|-------------|----------------|-------------|
| | \$000s | % | \$000s | % | \$000s | % | \$000s | % |
| <50% | 511 | 2.0 | 819 | 2.3 | 1,948 | 3.5 | 3,278 | 2.8 |
| 50% - 79% | 4,628 | 17.8 | 9,583 | 26.5 | 15,803 | 28.7 | 30,014 | 25.6 |
| 80% - 119% | 9,723 | 37.4 | 13,785 | 38.0 | 25,163 | 45.8 | 48,671 | 41.5 |
| 120% > | 11,123 | 42.8 | 12,041 | 33.2 | 12,102 | 22.0 | 35,266 | 30.1 |
| TOTALS | 25,985 | 100% | 36,228 | 100% | 55,016 | 100% | 117,229 | 100% |

Source: HMDA/LAR data for 2001, 2002 and 2003.

2. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS (continued)

CONSUMER LENDING

A sampling of 60 consumer loan originations for 2001, 2002 and 2003, was reviewed for the current examination period. Further analysis revealed the Credit Union's lending activity by various income categories. The information included in the table below indicates that the highest number of consumer loan originations, 41.6 percent, was granted to low-income members and 40.0 percent was granted to moderate-income members.

CONSUMER LOAN ORIGINATION BY INCOME OF BORROWER BY NUMBER

| % OF MEDIAN MSA INCOME | 2001 | | 2002 | | 2003 | | TOTALS | |
|------------------------|-----------|-------------|-----------|-------------|-----------|-------------|-----------|-------------|
| | # | % | # | % | # | % | # | % |
| <50% | 6 | 30.0 | 10 | 50.0 | 9 | 45.0 | 25 | 41.6 |
| 50% - 79% | 9 | 45.0 | 6 | 30.0 | 9 | 45.0 | 24 | 40.0 |
| 80% - 119% | 4 | 20.0 | 4 | 20.0 | 2 | 10.0 | 10 | 16.7 |
| 120% > | 1 | 5.0 | 0 | 0.0 | 0 | 0.0 | 1 | 1.7 |
| TOTALS | 20 | 100% | 20 | 100% | 20 | 100% | 60 | 100% |

Source: Credit Union Files 2001, 2002 and 2003.

An analysis was also performed by dollar amount. The table below indicates that the highest number of originations, 47.7 percent, was granted to moderate-income members. Also, 34.0 percent was granted to low -income members.

CONSUMER LOAN ORIGINATION BY INCOME OF BORROWER BY DOLLAR AMOUNT

| % OF MEDIAN MSA INCOME | 2001 | | 2002 | | 2003 | | TOTALS | |
|------------------------|------------|-------------|------------|-------------|------------|-------------|------------|-------------|
| | \$000s | % | \$000s | % | \$000s | % | \$000s | % |
| <50% | 78 | 32.1 | 96 | 37.8 | 50 | 30.7 | 224 | 34.0 |
| 50% - 79% | 113 | 46.5 | 96 | 37.8 | 106 | 65.0 | 315 | 47.7 |
| 80% - 119% | 47 | 19.3 | 62 | 24.4 | 7 | 4.3 | 116 | 17.6 |
| 120% > | 5 | 2.1 | 0 | 0.0 | 0 | 0.0 | 5 | 0.7 |
| TOTALS | 243 | 100% | 254 | 100% | 163 | 100% | 660 | 100% |

Source: Credit Union Files 2001, 2002 and 2003.

2. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS (continued)

It should be noted that consumer loans typically consider the income of only one borrower. Therefore, the percentage of loans to low- and moderate-income borrowers is higher than that of residential mortgage originations, where the income is usually the result of joint combined incomes.

The Credit Union has shown a willingness to lend to applicants of low and moderate-income. The distribution of credit among borrowers, given the characteristics of the Credit Union's membership and the above information, reflects a good dispersion among individuals of different income levels, including those of low and moderate-income. Therefore, the distribution of credit among different income levels meets the standards for satisfactory performance.

3. REVIEW OF COMPLAINTS/FAIR LENDING

MBTA Employees Credit Union has not received any complaints related to its CRA performance since the previous examination. However, the Credit Union has procedures in place should any consumer complaints related to CRA be received.

FAIR LENDING POLICIES AND PRACTICES

The Credit Union has a current formal fair lending policy, which meets the requirements of Regulatory Bulletin 2.3-101; the Division's fair lending policy. The Credit Union's fair lending policy is a statement that the Board of Directors constantly reviews the Credit Union's loan products and banking services in order to be responsive to the needs of its membership.

The Credit Union's marketing activity includes placing information on its credit products and services in public view within the main lobby of its main office, branches and offices where its members are employed. The Credit Union also includes statement stuffers in correspondence sent out to the membership and brochures are located in the Credit Union's lobby. The Credit Union has established a website, where members can access information regarding services and loan products.

A second review has been established and is documented on every mortgage denial. The Credit Committee has the authority to approve or deny mortgage loans. If the loan is refused, or if the credit committee makes a counteroffer, the loan is sent for second review to the Chairman of the Credit Committee, who has not previously acted on the application.

The Credit Union sponsored several first-time homebuyer seminars based on FNMA lending principals. All seminars were conducted at the Credit Union's main office in South Boston.

A fair lending review was conducted as part of this examination to ensure compliance with governing fair lending regulations. The review identified no violations of the substantive provisions of the anti-discriminatory laws and regulations.

Based on the foregoing information, the Credit Union meets the standards for satisfactory performance in this category.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF CREDIT UNIONS:

THIS IS TO CERTIFY, that the report of examination of the

MBTA EMPLOYEES CREDIT UNION

For compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **January 14, 2004**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

| | |
|-------|-------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

A majority of the Board of Directors

Dated at _____ this _____ day of _____ 20 _____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.